PRODUCTION AS A REMEDY FOR INFLATION

GEORGE E. ROBERTS

THE level of prices and state of bank credit at this time command serious attention. The figures for each are about double those of before the war. The increase of bank loans is related to the rise of prices, some say as a cause, and some say as an effect.

Undoubtedly the original impulse came from the war. The war created a practically unlimited demand for labor and materials. The Government let contracts right and left, and contractors went into the markets and bid against each other. And the demands of the regular industries did not fall off, for with the enormous disbursements of the Government, higher wages and a full state of employment, there was more trade than ever and more demand on the industries. The banks, as a matter of patriotic duty, were called upon to lend freely for the purchase of Liberty Bonds and also to support business.

So here was a practically unlimited demand for labor and materials, backed by what for the time being was an unlimited supply of credits, or purchasing power, and brought to bear upon a limited supply of labor and materials.

The object was to increase production, and so long as there was any slack in the industries it had that effect, but when you have every man busy and every machine running, that is about all you can do. When you have reached that point about the only way one employer can increase his own working force is by hiring labor away from other employers, and your efforts to drive the industrial organization still harder expend themselves for the most part in driving up wages and prices. In short, we have created and used purchasing power in the form of credit beyond the increase in productive capacity, and the effect has been to depreciate the purchasing power. The only way to eliminate this inflation is by reversing the process, gradually accumulating actual capital to take the place of the credit.

If the inflation had taken place in the form of paper cur-

rency, issued by the Treasury in direct payment of war expenses, probably most people would be able to see quite clearly that that paper should be paid off and retired, but they don't see it quite so clearly when the credit is in the form of bank loans to customers. Many are even confused to the extent of thinking that the great increase of bank deposits represents new wealth accumulated during the war. But that is a fallacy. When a bank lends $10,000 and gives a customer credit for it in his account, its deposits will go up $10,000, and when the credit is checked out, it will go into other banks and it will continue to circulate as purchasing power, and have the same influence upon prices as money, until somebody checks against $10,000 of actual savings to extinguish it.

But the most serious feature of the situation is that we did not stop the process of inflation at the end of the War. Our bank loans expanded nearly as much in 1919 as they did in 1918, and under the same kind of pressure. We are still trying to drive the industrial machine beyond its capacity. The competition of employers for labor and materials is still going on. The town industries are bidding against each other and against the farms for labor and they are getting it away from the farms. There are authentic instances of town industries sending agents into adjacent farming districts to recruit labor from the farm by direct solicitation and offers. This is like pulling stones out of the foundation to build the superstructure. Official reports indicate that the country over there is 12 per cent less hired labor on farms than a year ago. There are 37 per cent more employees in the automobile industry, 55 per cent more in the clothing industry, 11 per cent more in the paper industry, and from 10 to 93 per cent more in the several branches of the textile industry.

Under these conditions there is a great danger that a further expansion of bank credit will simply finance the competitive struggle and carry the rising price movement still higher. Money is tight, goods are scarce, and there is pressure on every bank by its customers for credit to enable them to go into the market and buy the amount of commodities which they think they can sell, and their competitors are wanting to borrow for the same purpose.

These efforts on the part of merchants to get goods which

they say their trade is wanting, and of manufacturers to hire labor and buy materials for the purpose of making goods for which they have orders, appear on the face of things to represent perfectly legitimate and necessary business, supplying the wants of the people, and therefore entitled to bank credit. The deceptive thing about it is that the demand for goods in the aggregate is greater than can be supplied; it exceeds the capacity of the industries, and under these conditions competition will carry prices higher and higher and absorb any amount of credit that may be granted. It is the war situation over again; the only way of holding down prices is by restricting the expansion of purchasing power in the form of credit.

But the influences for inflation are not all on the side of money and credit; they are partly on the side of production. Industry is disorganized and demoralized in Europe. The supplies of food and raw materials which in times past have come out of Russia are cut off. The normal amount of construction and development work for the expansion of industry has not been done anywhere in the last six years. Moreover, the productive equipment is not being worked as effectively as before the War. This time of scarcity has been chosen as a favorable one in which to cut down the time of operating machinery. The highly automatic machinery of the textile industry has been reduced in running time from 54 hours per week to 48, and a strike is said to be now pending to compel a further reduction to 44. In some instances higher pay has resulted in increased irregularity at labor, and in other cases the ease with which new employment is found is said to cause laxness and inefficiency. Perhaps the revulsion from the War strain is responsible for an involuntary let-down of energy. I heard the Assistant Director of the United States Census Bureau say in a public address a few evenings ago that the performance of the Census force in the tabulation of returns now coming in was notably below the former experience of the Bureau, and that the employees had delegated a committee to ask that the minimum requirement heretofore in force be reduced. This is in Government offices, with seven hours of work per day.

If a single family, situated in a somewhat independent position, as on a farm, should suddenly meet with disastrous losses,

sweeping away its ready capital, crippling its working equipment and involving it heavily in debt, that family would know precisely what it must do in order to regain a prosperous state. It would expect to work harder and more efficiently, live more economically, produce more and save more, until it was back in prosperous condition again. The same principle holds good in the case of such a group of people as a nation. There is a shortage of capital throughout the world, due to the fact that enormous sums have been wasted in war. It is impossible that such expenditures should be made without ill effects reaching all classes of society, and everyone who understands the situation should wish to alleviate it rather than to aggravate it.

It seems reasonable as a proposition standing by itself that wages should increase to correspond to increases in the cost of living. But nothing is more certain than that a general advance in wages can not compensate for a shortage of goods. If you were to double all wages in the United States tonight it would not give you another bushel of wheat, or pound of sugar or yard of cloth. It would simply give everybody the means with which to compete for what he wants, with the result that prices would rise to absorb the additional purchasing power. The only remedy for a scarcity of goods is more goods.

One of the fundamental reasons for the inflation is that there is a shortage of equipment for production and transportation. In this country there is need to spend billions of dollars upon the railroads. The railroad situation has been critical for many months. The farming regions of the Middle West have had great difficulty in moving last year's crop; and country elevators are still filled with grain; the switch tracks of the East are crowded with cars; the banks both east and west are congested with loans which normal exchanges would clear up. Industry in all parts of the country is embarrassed, industrial costs are higher and the cost of living is higher because the railway facilities are inadequate. We need to spend billions for housebuilding to provide shelter to our people. We ought to raise billions to provide credits for Europe, to enable the peoples of Europe to purchase in this country the equipment, materials and foodstuffs which they are needing to sustain life and to make them self-supporting again. A Pan-American

Conference was held at Washington a few weeks ago, attended by delegates from every country of Latin-America, and the burden of their message was a plea for capital for the development of their resources, in order that they might increase the supply of foodstuffs and raw materials in the markets of the world.

These are some of the pressing needs for capital, for the good of the world. Somebody must come forward and supply it, if this kind of work is to go on, and it must go on if social progress is to go on. The gains of society in the last hundred years have come mainly by improvements in industry, by the use of power and machinery, and the gains of the future must be won in the same way.

This problem of high prices leads over inevitably into the larger controversy of the time, the question of how much of current production should be reserved as capital and how much should be consumed as we go along. The evidence seems to show that we are spending too much upon current consumption and not reserving enough for increasing production.

And yet there are many good people who think we have accumulated capital too rapidly in the past, that in the division between labor and capital, labor has been unjustly treated, and that it is bound to have a larger share in the future. But how does anyone know that the condition of the wage-earning class would be better today if more had been distributed in wages and less had been used for the development of industry in the past? You cannot eat your cake and have it, too. The industrial development of this country has been accomplished mainly by means of the industrial profits of the past. If the profits had been less, the development would have been less, the productive capacity of the industries would be less than it is, and the evils of scarcity and high prices would be greater than they are.

There is every reason to believe that if you could cut all profits in two for the coming year, and add one-half of them to wages, the effect would be to increase the demand for goods in the stores, raise the prices of goods still higher, and reduce the amount of capital available for increasing production. And that statement is not a reflection upon the wage-earning people, because the amount of increase to each person would be so

small that it would be almost inevitably lost to productive use. It takes a lot of resolution to save small sums.

The truth is that there is a definite relationship between the compensation of capital and the compensation of labor, determined by economic law. There must be a certain amount of new capital available for investment in order to keep the industries up to the wants of the population. If these supplies are not forthcoming, industry will fall behind, improvements will not be made, production will fall behind, prices will rise and wages in the long run and on the average will decline in purchasing power, because wages must be paid out of production.

On the other hand, if too much is reserved to capital and used for the enlargement of industry and not enough distributed broadly, the purchasing power of the people will not keep up and you will have a period of depression profitable to nobody.

At this time there is a shortage of capital. We see the Pennsylvania Railroad Company, with a credit that is above question, borrowing money for ten years at 7 per cent. This is because the sources which have heretofore supplied capital for the railroads are unable to do so as formerly. The present owners of railroad bonds and stocks are getting no higher returns than before the War. They are paying much higher taxes and higher expenses out of their incomes, with the result that they have fewer dollars for investment, and what they invest will buy less than one-half as much in the way of railroad equipment and supplies as before.

I have heard it said that an investor who builds a house for rent now is entitled to rentals which will fairly compensate him upon the basis of present costs, but that the owner of a house built before the War is entitled to compensation only upon the original outlay. But if the return which the latter receives has less purchasing power than before the War, he will have less savings for investment and the savings will have less value for building more houses than before.

It is a common mistake to think of capital accumulations as of value only to the owners. They are the means by which society is carried forward. The man who owns no property, and who spends his wages as fast as he receives them, is bene-

fited by the capital expenditures that have doubled the average train-load on the railroads of this country since 1900.

New capital must be found somewhere. Where is it coming from? Will it come from wages? Some of it, no doubt. We hope the time is coming when the wage-earners will supply a large part of the capital for the industries, but developments of that kind come by a process of growth and we cannot look for immediate relief from that source. The bulk of the capital for the development of the industries always has come from the industries themselves, and the larger the profits the faster the development has been. Amidst all this denunciation of profiteers, you would be startled if I should say that the profiteer was the hope of the country. And I am not going to give him quite so sweeping an endorsement as that; but it is the plain truth that the rise of profits under these conditions represents the natural workings of the economic law in restoring the equilibrium. There never was such activity in the development of new sugar plantations as there is now around the Caribbean. There never was such an amount of new capital going into cotton-goods production as now. The new projects for mills and extensions in the southern states, announced in the first three months of 1920, exceeded in estimated cost and in weaving and spinning capacity, the new projects for the entire year 1919. The makers of cotton-mill machinery have their capacity sold up for the next two years. The makers of profits are reinvesting them, in hopes of making more profits, and in all haste to increase their production before prices fall.

There is only one way to prevent people from bidding against each other, or to prevent prices and profits from rising, in time of scarcity, and that is by taking possession of the entire supply and making an apportionment at a fixed price. That was necessary during the war when interest was centered upon one immediate purpose, but it is impracticable as a permanent policy, and it does nothing to correct the situation. It neither stimulates production nor provides new capital, and rising prices do both.

We have a riot of spending and it is not the spending of a favored few, but of millions. If you, the public, will not save, the profiteer will save for you. It would be better for you to save for yourself, but if you will not the economic law resorts

to him. You may denounce him, but if he is a producer and using his profits to increase production, whether the process be rapid or spread over a longer time, he is doing something that must be somehow accomplished before we can have a return to normal conditions.